

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 EB-08 FRB-01 INR-10
NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02 LAB-04
SIL-01 OMB-01 OES-07 INT-05 DOE-11 SOE-02 ITC-01
STR-07 /105 W

-----042396 101527Z /50

R 091825Z MAR 78
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 8831
INFO TREASURY WASHDC
USDOC WASHDC

UNCLAS MEXICO 04017

EO 11652: N/A
TAGS: EFIN MX
SUBJECT: FISCAL INCENTIVES FOR CAPITAL GOODS INDUSTRY

1. THE MEXICAN TREASURY HAS GRANTED VARIOUS TAX INCENTIVES FOR THE CAPITAL GOODS INDUSTRY, INCLUDING REDUCED IMPORT TAXES AND INCOME TAXES. TAX INCENTIVES TO BE EFFECTIVE ONLY IN 1978, THOUGH THEY PRESUMABLY COULD BE EXTENDED. TREASURY SECRETARY IBARRA HAS LONG FAVORED MORE RAPID DEVELOPMENT OF A DOMESTIC CAPITAL GOODS INDUSTRY AS MOST CAPITAL GOODS ARE IMPORTED.

2. THE TAX INCENTIVES TO PRODUCERS OF CAPITAL GOODS ARE AS FOLLOWS:

A) A 75 PERCENT REDUCTION IN THE IMPORT TAX ON MACHINERY AND EQUIPMENT NOT PRODUCED IN MEXICO, OR FOR WHICH THE DOMESTIC PRODUCTION CANNOT COMPETE ON THE GROUNDS OF PRICE, QUALITY AND/OR DELIVERY TIME. THE 25 PERCENT BALANCE CAN BE REBATED IF THE DOMESTIC PRODUCER SPENDS AT LEAST ONE PERCENT OF ANNUAL REVENUES ON RESEARCH AND DEVELOPMENT, OR IF HE HAS A SIGNIFICANT EXPORT PROGRAM.

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B) UP TO 100 PERCENT REDUCTION IN IMPORT DUTIES ON RAW MATERIALS OR PARTS.

C) UP TO 75 PERCENT REDUCTION IN THE GROSS RECEIPTS TAX ON SALES OF DOMESTICALLY PRODUCED CAPITAL GOODS CONSIDERED TO BE OF PRIORITY.

D) A REDUCTION OF 15 TO 20 PERCENT IN THE CORPORATE INCOME TAX FOR PRODUCERS FOR CERTAIN CAPITAL GOODS, SUCH AS THOSE GOODS USED BY THE ENERGY SECTOR, OR MINING.

E) ACCELERATED DEPRECIATION FOR TAX PURPOSES CAN BE GRANTED.

3. TO QUALIFY FOR THE ABOVE INCENTIVES, THE FIRM'S LOCAL CONTENT MUST EQUAL 60 PERCENT OF PRODUCTION COSTS, OR THE PRODUCTION PROGRAM MUST BE APPROVED BY THE SECRETARIAT OF PATRIMONY AND INDUSTRIAL DEVELOPMENT. ALSO, THE COMPANY MUST BE MAJORITY MEXICAN-OWNED THOUGH MAJORITY FOREIGN-OWNED COMPANIES CAN OBTAIN THE IMPORT DUTY REBATES IF THEIR EXPORTS EQUAL THEIR IMPORTS.

4. PURCHASERS OF DOMESTICALLY PRODUCED CAPITAL GOODS CAN USE AN ACCELERATED DEPRECIATION.

5. THE INCENTIVES WILL BE GRANTED BY THE TREASURY AND IN CERTAIN CASES WILL BE FOR PRODUCTION OUTSIDE THE MAJOR METROPOLITAN AREAS. THE INCENTIVES ARE TO EXPIRE AT THE END OF 1978, THOUGH THE GOVERNMENT COULD RENEW THEM.

6. COMMENT: MEXICAN GOVERNMENT OFFICIALS HAVE LONG BEEN CONCERNED ABOUT THE SMALL SIZE OF THE DOMESTIC CAPITAL GOODS INDUSTRY AND THE RESULTANT DEPENDENCE ON IMPORTED
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CAPITAL GOODS. LUCEY

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INCENTIVES, TAXES, CAPITAL GOODS, TAX RELIEF
Control Number: n/a
Copy: SINGLE
Draft Date: 09 mar 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978MEXICO04017
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780108-0372
Format: TEL
From: MEXICO
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780388/aaaacwis.tel
Line Count: 95
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: c1744cca-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: ONLY
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3388256
Secure: OPEN
Status: NATIVE
Subject: FISCAL INCENTIVES FOR CAPITAL GOODS INDUSTRY
TAGS: EFIN, MX
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/c1744cca-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014